AYLMER

Del Monte

1976 Annual Report

Canadian Canners Limited

1976 Annual Report

Financial Highlights

	1976	1975
Sales	**$113,009,000**	$106,737,000
Net earnings	**3,012,000**	4,434,000
Per dollar of sales	**2.7¢**	4.2¢
Per Class A and B common share	**2.14**	3.16
Return on shareholders' equity	**7.3%**	11.8%
Dividends paid per Class A share	**—**	.56¼
Retained earnings	**36,406,000**	33,394,000
Working capital	**26,647,000**	25,148,000
Working capital ratio	**1.8**	1.8
Shareholders' equity	**42,703,000**	39,691,000

To Our Shareholders and Employees

For the fiscal year ended May 31, 1976, consolidated sales and operating revenues were at a record $113,009,000, surpassing 1975 by 5.9%. The consumer demand for AYLMER and DEL MONTE products continues to grow. The increase in sales volume of our two feature brands was approximately 5.3% over the previous year.

Net earnings for the fiscal year ended May 31, 1976 were $3,012,000 or $2.14 per share compared with $4,434,000 or $3.16 per share for the prior year. The return per dollar of sales at 2.7¢ did not keep pace with the 4.2¢ per dollar of sales in 1975 and, likewise, the return on shareholders' equity at 7.3% was down significantly from the 11.8% return in 1975.

Our overall cost of production continued to increase during the past year; however, several factors prevented the reflection of the total increase in our selling prices. There were surplus domestic vegetable stocks available due to better than expected crop yields during the 1975 growing season and this, combined with a large influx of imported canned products, resulted in depressed wholesale prices. The market was affected by low-priced imported tomato products and fruits which are having a continuing impact on Canadian processors. Following the announcement of the Federal Government's Anti-Inflation Program last October, the retail trade imposed a sixty-day price freeze which had a restraining effect in the marketplace. The uncertainties of the Anti-Inflation Program and the economy in general appear to have had some psychological impact on consumer buying. The total movement of grocery products over the last year has not been up to expectations and this has created a generally uncertain market atmosphere.

We are again experiencing cost increases for the packs of the 1976 fruit and vegetable processing season. As costs of manufacturing in Canada increase, it is making it more difficult to compete against imported canned foods, particularly fruits, mushrooms, and tomato products. The present value of the Canadian dollar and the overall increasing cost of manufacturing present a considerable challenge to the Canadian food processing industry.

The working capital position of the Company has again improved over the prior year but the higher cost of replacing merchandise inventory has prevented any reduction in our short-term borrowings. Capital expenditures during the past year were $3,499,000, an increase of 22.4% over the prior year. The expenditures were primarily for the replacement of equipment and assets necessary to continue our present operations, along with a major addition to the warehouse at our can manufacturing plant in Burlington.

The outlook for fiscal 1977 is very much dependent upon the results of the 1976 growing season and the impact of the Anti-Inflation Program. There has been considerable wet weather, particularly in Ontario and Quebec, which may reduce the packs of vegetables and tomato products below expectations. The fruit crop in the Niagara area was severely damaged by the winter and early spring weather conditions, which will result in a considerable reduction in the 1976 industry fruit packs. This will increase costs and vulnerability to import competition. Throughout 1976, market conditions seem to have had more of an impact on prices than the Anti-Inflation Program; however, it is inevitable that prices will increase as a reflection of higher manufacturing costs.

Our Company recognizes and acknowledges the need for government action to control inflation by the establishing of the Anti-Inflation Board. We are, however, concerned by the incentive constraints of the Anti-Inflation Program with respect to productivity improvements and cost reductions.

Our Company is aware of the need for better consumer education in nutritional matters and has offered to the Canadian homemakers a booklet entitled "You should know what's good for you." This booklet contains interesting information about canned fruits and vegetables and their nutritional composition as well as the importance of a good nutritional balance in meals. The interest shown by homemakers and professionals has been excellent, and we are continuing to receive many requests for the booklet. We are pleased to be making this contribution toward a better understanding of this very important subject.

Early in 1976, the take-over of the Class A common shares was completed by Del Monte Corporation, resulting in the ownership by Del Monte Corporation of 99.2% of the total Class A common and Class B common shares of the Company. The listing of the Class A common shares was withdrawn from the Toronto and Montreal Stock Exchanges in March 1976.

At the Annual Meeting of Shareholders held on October 2, 1975, Mr. Vernal C. German, President of Pilkington Brothers (Canada) Ltd., Mr. Jean P. W. Ostiguy, President and Chief Executive Officer of Crang & Ostiguy Inc., and Mr. W. G. Lister, Vice-President, Treasurer & Controller of the Company, were elected as new members of the Board of Directors.

Mr. Ross B. Yerby, Chairman of the Board of Canadian Canners Limited and Vice-Chairman of the Board of Del Monte Corporation, will not be standing for re-election at the next Annual Meeting of Shareholders on October 7, 1976 because of his retirement. Mr. Yerby has served on the Board of Directors for seventeen years and has been Chairman since 1971. Mr. R. F. Fly, Group Vice-President of Del Monte Corporation will be nominated for election to the Board of Directors at the Annual Shareholders' Meeting.

Each year presents its peculiar problems and challenges, and we are certain that 1976/77 will prove to be no exception. We express appreciation to our employees for rising to the many challenges during the past year, and we look forward to their continued support.

On behalf of the Board of Directors,

Ross B. Yerby, Chairman

L. H. Johnston, President

Hamilton, Ontario,
September 8, 1976

Consolidated Balance Sheet

AS AT MAY 31

ASSETS

	1976	1975
Current Assets:		
Cash	$ **9,000**	$ 59,000
Accounts receivable	**10,210,000**	9,527,000
Inventories (Note 2)	**46,162,000**	45,017,000
Costs allocable to future operations	**1,713,000**	1,190,000
	58,094,000	55,793,000
Fixed Assets:		
Land	**983,000**	937,000
Buildings	**10,847,000**	9,656,000
Machinery and other equipment	**25,473,000**	24,148,000
	37,303,000	34,741,000
Less—Accumulated Depreciation	**21,264,000**	20,392,000
	16,039,000	14,349,000
Other Assets:		
Mortgages and deferred charges	**560,000**	583,000
Goodwill	**3,243,000**	3,243,000
	3,803,000	3,826,000
	$ 77,936,000	$ 73,968,000

Approved by the Board:

L. H. Johnston, Director
Ross B. Yerby, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Current Liabilities:		
Bank advances and other short-term borrowings	$ 19,623,000	$ 17,669,000
Accounts payable and accrued liabilities	8,991,000	9,864,000
Due to affiliated companies	2,631,000	1,541,000
Income and other taxes payable	106,000	1,461,000
Payments due within one year on long-term debt	96,000	110,000
	31,447,000	30,645,000
Other Liabilities:		
Long-term debt (exclusive of payments due within one year)	128,000	224,000
Deferred income taxes	3,658,000	3,408,000
	3,786,000	3,632,000
Shareholders' Equity:		
Capital stock (Note 3)		
Authorized—		
1,000,000 Class A common shares without nominal or par value		
2,000,000 Class B common shares without nominal or par value		
Issued—		
468,137 Class A common shares	2,099,000	2,099,000
936,274 Class B common shares	4,198,000	4,198,000
	6,297,000	6,297,000
Retained earnings	36,406,000	33,394,000
	42,703,000	39,691,000
	$ 77,936,000	$ 73,968,000

Consolidated Statement of Earnings and Retained Earnings

YEAR ENDED MAY 31

	1976	1975
Sales and operating revenues	**$ 113,009,000**	$ 106,737,000
Costs and expenses:		
Cost of products sold and operating expenses	**91,248,000**	85,554,000
Selling, general and administrative expenses	**14,591,000**	12,506,000
Interest expense	**2,233,000**	1,393,000
	108,072,000	99,453,000
Earnings before income taxes	**4,937,000**	7,284,000
Provision for income taxes	**1,925,000**	2,850,000
Net earnings for the year	**3,012,000**	4,434,000
Retained earnings at beginning of year	**33,394,000**	29,136,000
	36,406,000	33,570,000
Dividends declared on Class A common shares	**—**	176,000
Retained earnings at end of year	**$ 36,406,000**	$ 33,394,000
Net earnings per share (Class A and B common combined)	**$ 2.14**	$ 3.16

Consolidated Statement of Changes in Financial Position

YEAR ENDED MAY 31

	1976	1975
Financial resources were provided by:		
Operations—		
Net earnings	$ 3,012,000	$ 4,434,000
Charges not involving a current outlay of funds—		
Depreciation	1,617,000	1,899,000
Deferred income taxes	250,000	10,000
	4,879,000	6,343,000
Proceeds from disposal of fixed assets	192,000	113,000
Increase in long-term debt	—	151,000
Decrease in mortgages receivable	23,000	117,000
	5,094,000	6,724,000
Financial resources were used for:		
Investment in fixed assets	3,499,000	2,858,000
Dividends declared on Class A common shares	—	176,000
Reduction of long-term debt	96,000	110,000
	3,595,000	3,144,000
Increase in working capital	1,499,000	3,580,000
Working capital at beginning of year	25,148,000	21,568,000
Working capital at end of year	$ 26,647,000	$ 25,148,000
Analysis of changes in working capital:		
Increase (decrease) in current assets—		
Cash	$ (50,000)	$ (6,000)
Accounts receivable	683,000	1,364,000
Inventories	1,145,000	15,728,000
Costs allocable to future operations	523,000	300,000
	2,301,000	17,386,000
Increase (decrease) in current liabilities—		
Bank advances and other short-term borrowings	1,954,000	10,221,000
Accounts payable and accrued liabilities	(873,000)	2,626,000
Due to affiliated companies	1,090,000	568,000
Income and other taxes payable	(1,355,000)	452,000
Payments due within one year on long-term debt	(14,000)	27,000
Dividends payable on Class A common shares	—	(88,000)
	802,000	13,806,000
Increase in working capital	$ 1,499,000	$ 3,580,000

Notes to Consolidated Financial Statements

MAY 31, 1976

1. Summary of Accounting Policies:

The significant accounting practices and policies employed in the preparation of the consolidated financial statements of Canadian Canners Limited and its subsidiaries are summarized below.

a.) Consolidation -

The consolidated financial statements include the accounts of the Company and its subsidiary companies all of which are wholly-owned:

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
Duncan Lithographing Company (Limited)
The Pyramid Canners Limited
St. Williams Preservers Limited
Wagstaffe Limited
Walmer Transport Company Limited

b.) Inventories -

Inventories are stated at the lower of cost and net realizable value, primarily using the average method to determine cost.

c.) Costs allocable to future operations -

Prepayment of insurance, rents, taxes and other expenses clearly related to future periods are considered costs allocable to future operations and are not charged against current earnings. In addition, the Company defers freight costs associated with the movement of finished cased goods from the packing locations to distribution warehouses and certain expenditures on growing crops that directly relate to future years' packing seasons.

d.) Fixed assets -

Fixed assets are stated at cost.

Depreciation is provided at rates designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings — 2½% annually on a straight-line basis
Machinery and equipment — 6% annually on a straight-line basis
Automotive equipment — 30% annually on a declining balance basis

The cost of fixed assets retired or otherwise disposed of, and accumulated depreciation thereon, are removed from the accounts and any resulting gain or loss is included in earnings for the year.

Expenditures for maintenance and repairs are charged to earnings when they are incurred, and renewals and betterments are capitalized.

e.) Goodwill -

Goodwill which arose prior to April 1, 1974 has not been amortized and will be retained as an asset indefinitely unless a reduction in its value becomes evident. Goodwill arising subsequent to this date, if any, will be amortized to income over its estimated life, not exceeding forty years.

f.) Deferred income taxes -

Deferred income taxes result principally from the difference between depreciation methods used for financial reporting purposes and depreciation methods allowable in determining taxable income.

g.) Other significant policies -

Research and development cost, development of new products, advertising and sales promotion expenses are charged against income as incurred.

2. Inventories:

At May 31, inventories comprise:

	1976	1975
Merchandise	$29,485,000	$28,951,000
Materials and supplies	16,677,000	16,066,000
	$46,162,000	$45,017,000

3. Arrears in Dividends:

Class A Common Shares -

The holders of Class A common shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B common shares. To June 30, 1976, the dividends in arrears which have accumulated in varying amounts annually since September 30, 1968, aggregate $1,346,000.

Class B Common Shares -

Subject to the prior rights of the Class A common shares, the holders of Class B common shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum. To June 30, 1976, the dividends in arrears which have accumulated since October 1, 1956, aggregate $13,869,000.

After the Class A and B common shares have received payment of all accumulated dividends, Class A and B common shares share equally in any dividends in excess of 75¢ per share per annum.

4. Pension Plans:

Based on the most recent actuarial evaluation, the unfunded liability of the pension plans for hourly and salaried employees amounts to approximately $424,000 which will be amortized by annual payments over a period not exceeding fourteen years.

5. Long-term Leases:

At May 31, 1976 the Company had long-term leases expiring in various years through 1995 covering land, buildings and equipment. The average annual rentals payable under these agreements are estimated at $700,000 for the year ended May 31, 1977, $528,000 for 1978-82 and $253,000 for 1983-95.

6. Remuneration of Directors and Officers:

During the year ended May 31, 1976, the aggregate direct remuneration paid by the Company to twelve directors as directors together with that paid to three past directors was $16,200 ($10,800 in 1975) and to eight officers as officers (4 of whom were directors) was $228,000 ($195,000 in 1975).

7. Anti-Inflation Program:

The Company and its subsidiaries are subject to controls on prices, profits, dividends and compensation instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The Company believes it has complied with the guidelines since their announcement.

Auditors' Report

To the Shareholders of
Canadian Canners Limited:

We have examined the consolidated balance sheet of Canadian Canners Limited and its subsidiary companies as at May 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.,
Chartered Accountants.

Hamilton, June 30, 1976.

Ten Year Review of Financial Data

Figures in thousands except per share

	Twelve Months Ended May 31							Fifteen Months Ended May 31	Twelve Months Ended February 28 (29)	
	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
FOR THE YEAR										
Sales	$113,009	106,737	85,348	73,197	64,078	58,582	54,663	68,028	53,677	52,251
Earnings from operations	3,012	4,434	2,808	2,232	1,263	809	692	754	1,175	1,172
Per dollar of sales	2.7¢	4.2¢	3.3¢	3.0¢	2.0¢	1.4¢	1.3¢	1.1¢	2.2¢	2.2¢
Per Class A and B common share	2.14	3.16	2.00	1.59	.90	.58	.49	.54	.84	.83
Net extraordinary gains	—	—	—	—	—	—	1,011	301	—	492
Net earnings	3,012	4,434	2,808	2,232	1,263	809	1,703	1,055	1,175	1,664
Per Class A and B common share	2.14	3.16	2.00	1.59	.90	.58	1.21	.75	.84	1.18
Return on shareholders' equity	7.3%	11.8%	8.2%	7.0%	4.2%	2.7%	6.0%	3.6%	4.4%	6.5%
Cash dividends paid	—	263	269	187	187	187	187	357	351	351
Per Class A common share	—	.56¼	.57½	.40	.40	.40	.40	.76¼	.75	.75
Capital expenditures	3,499	2,858	1,625	1,285	1,224	1,342	1,331	1,452	915	2,039
Provision for depreciation	1,617	1,518	1,373	1,329	1,331	1,262	1,240	1,535	1,219	1,172
AT YEAR END										
Working capital	26,647	25,148	21,568	18,299	17,055	16,907	17,429	17,778	18,079	16,935
Working capital ratio	1.8	1.8	2.3	2.0	2.0	2.2	2.5	2.2	2.2	2.2
Net fixed assets	16,039	14,349	13,503	13,365	13,496	13,673	12,761	13,198	13,550	13,972
Long-term debt	128	224	183	266	1,549	2,634	2,694	3,144	5,319	5,805
Retained earnings	36,406	33,394	29,136	26,638	24,593	23,517	22,895	21,426	20,728	19,904
Shareholders' equity	42,703	39,691	35,433	32,935	30,890	29,814	29,192	27,723	27,025	26,201

DIRECTORS	Alfred W. Eames, Jr.	San Francisco, California
	V. C. German	Toronto, Ontario
	L. H. Johnston, F.C.A.	Hamilton, Ontario
	Richard G. Landis	San Francisco, California
	W. G. Lister	Hamilton, Ontario
	C. S. MacNaughton	Toronto, Ontario
	Fred H. McNeil	Montreal, Quebec
	A. L. Nelson	Hamilton, Ontario
	J. P. W. Ostiguy	Montreal, Quebec
	W. S. Sewell, Q.C.	Toronto, Ontario
	Richard H. Ward	San Francisco, California
	Ross B. Yerby	San Francisco, California
OFFICERS	Ross B. Yerby	Chairman of the Board
	L. H. Johnston	President and Chief Executive Officer
	G. B. Culbert	Director of Marketing
	Richard Fox	Vice-President—Corporate Development
	W. G. Lister	Vice-President—Treasurer and Controller
	A. L. Nelson	Vice-President—Production
	D. W. Munn	Secretary
	C. A. Barnes	Assistant Secretary

HEAD OFFICE 44 Hughson Street South, Hamilton, Ontario L8N 3K6

SUBSIDIARY COMPANIES

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
Duncan Lithographing Company (Limited)
The Pyramid Canners Limited
St. Williams Preservers Limited
Wagstaffe Limited
Walmer Transport Company Limited

REGISTRAR AND TRANSFER AGENTS Royal Trust Company, Toronto and Montreal

AUDITORS Price Waterhouse & Co.

ANNUAL MEETING October 7, 1976, Hamilton, Ontario